

FREQUENTLY ASKED QUESTIONS (FAQ'S)
ON BANK INDONESIA CIRCULAR LETTER NO. 12/18/DPM
DATED JULY 7, 2010 CONCERNING OPEN MARKET OPERATIONS

Q What is the background of the issuance of the provisions on Open Market Operations?

A. In order to simplify several provisions on OMO instruments which have been made separately all this time as well as to adjust the types and the use of Open Market Operation instruments to the current market practices.

Q. What are the basic provisions regulated in this Circular Letter?

A. This Circular Letter provides for the matters related to OMO activities which include SBI issuance, repo transactions, reverse repo transactions, outright purchase and sale of Sovereign Securities (SBN) on the secondary market as well as term deposit transactions.

Q. Who can participate in OMO activities?

A. OMO Participants shall be banks as referred to in Bank Indonesia Circular Letter regulating the criteria and requirements for Securities, participant and intermediary in monetary operation

Q. In what events are SBIs issued and what are the characteristics?

A. SBIs are issued by way of auction in the context of the absorption of rupiah liquidity in the money market. SBIs have the following characteristics:

1. the unit is in the amount of Rp.1,000,000.00 (one million rupiah);

2. the minimum tenure is 1 (one) month and the maximum tenure is 12 (twelve) months;
3. issued and traded by using a discount system;
4. issued in scripless manner and administered in the BI-SSSS;
5. negotiable;
6. can be transacted through repo and outright transactions; and
7. can be pledged.

In relation to SBI trade, an SBI holder shall be prohibited from engaging in transactions on SBIs that it holds with any other party for 1 (one) month (28 days) as from the SBI purchase settlement (minimum holding period), except for SBI transactions by Monetary Operation Participants with Bank Indonesia. The aforementioned transactions include, among other things, repo, outright, grant and pledge transactions.

In addition to the above, SBI transactions conducted after the coming into effect of the Bank Indonesia Regulation (PBI) on Monetary Operations which constitute a part of the transactions conducted prior to the coming into effect of the PBI shall also be excluded from the minimum holding period provisions, up to the maturity of the relevant transactions.

Q. In what events is a repo transaction conducted and what are its characteristics?

A. A repo transaction is conducted in the context of the injection of rupiah liquidity in the money market. A repo transaction has the following characteristics:

1. conducted by auction under the sell and buyback principles;
2. the minimum tenure is 1 (one) day and the maximum tenure is 12 (twelve) months;
3. Repo interest is calculated based on the simple interest method;
4. The right to receive Securities coupons under the repo during the repo transaction tenure remains the right of the OMO Participant.

Q. In what events is a reverse repo transaction conducted and what are its characteristics?

A. A reverse repo transaction is conducted in the context of rupiah liquidity absorption in the money market.

A repo transaction has the following characteristics:

1. conducted by auction under the sell and buyback principle;
2. the minimum tenure is 1 (one) day and the maximum tenure is 12 (twelve) months;
3. Reverse Repo interest is calculated based on the simple interest method;
4. The right to receive Securities coupons under the reverse repo during the reverse repo transaction period remains the right of Bank Indonesia.

Q. In what events is the SBN purchase and sale in the secondary market is conducted by Bank Indonesia and what are its characteristics?

A. An SBN purchase and sale transaction is conducted in the context of rupiah liquidity injection/absorption in the money market. An SBN purchase and

sale transaction is conducted by auction/non-auction under the outright principle.

Q. In what events is a term deposit transaction conducted and what are its characteristics?

A. A term deposit is conducted in the context of rupiah liquidity absorption on the money market. A term deposit transaction has the following characteristics:

1. conducted by auction;
2. the minimum tenure is 1 (one) day and the maximum tenure is 12 (twelve) months; and
3. can be subject to early redemption if the OMO Participant no longer holds the SBI and/or Sovereign Securities.

Q. In what events are sanctions imposed and what are their forms?

A. Sanctions are imposed in the event of:

1. OMO transaction cancellation, in the form of:
 - a. a written reprimand;
 - b. a financial penalty in the amount of 0.01% of the nominal value of the cancelled transaction, in the minimum amount of Rp10 million and in the maximum amount of Rp100 million; and
 - c. a temporary suspension of its participation in OMO activities for 5 (five) business days consecutively if the OMO transaction is cancelled for the third time during 6 (six) month-tenure.

2. Violations of the provisions on minimum holding period of SBI, in the form of:
 - a. a written reprimand; and
 - b. a financial penalty in the amount of 0.01% of the nominal value of SBI transaction which does not fulfill the minimum holding period provision, in the minimum amount of Rp10 million and in the maximum amount of Rp100 million per day.

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